

VHDA Report to the Virginia Housing Commission

April 22, 2008

Susan F. Dewey
Executive Director

Virginia Housing Development Authority



In 2008, VHDA is focused on three key short-term challenges

1. We are assisting the Administration in addressing Virginia's serious and growing foreclosure problem
2. We are moving to overcome major obstacles to accessing adequate lending capital
3. We are taking steps to equitably and prudently balance the supply of and demand for our mortgage funds

Challenge #1—Addressing Virginia's foreclosure problems

VHDA is providing multifaceted assistance to the Virginia Foreclosure Prevention Taskforce:

- We are managing the initiatives of Work Group #2 focused on public education and outreach, including:
 - Training and certifying foreclosure counselors, as well as ongoing support of counseling programs
 - Organizing and hosting foreclosure prevention clinics for troubled homeowners
 - Developing a public outreach and awareness campaign
- We are also monitoring subprime lending patterns, market conditions, and foreclosure activity in Virginia

Providing counselor training

VHDA is working to overcome the shortage of qualified foreclosure prevention counselors throughout Virginia by partnering with NeighborWorks to conduct:

- Seven 3-day training and certification sessions in loss mitigation and foreclosure prevention from March through May
- Two 2-day training sessions in the basics of foreclosure prevention in May

Holding foreclosure prevention clinics

In June, VHDA is organizing five day-long information and counseling clinics for at-risk homeowners in areas with the highest numbers of foreclosures

- On Saturday, June 14, clinics will be held in Hampton Roads, Richmond and Roanoke
- On Saturday, June 21, two clinics will be held in Northern Virginia, where two-thirds of Virginia's foreclosures are occurring

Conducting outreach and building public awareness

- VHDA is developing an extensive media campaign to inform the public on foreclosure issues, including a PSA by the Governor
- VHDA is also creating a website to serve as a central point of access for information on foreclosure issues

Challenge #2—Obstacles to accessing adequate loan capital

VHDA is facing two critical capital challenges:

1. Our annual tax-exempt bond issuance authority remains well below the average level for the first half of this decade
2. The ongoing crisis in the credit markets is constraining our ability to access adequate volumes of tax-exempt and taxable loan funds under favorable terms and conditions

VHDA's tax-exempt bond issuance remains constrained

- The passage of HB 1073 increases the guaranteed share of Virginia's annual bond cap that VHDA can count on receiving from 27% to 43%
- Nonetheless, recent increased tax-exempt bond sales by other issuers have substantially reduced the actual share that VHDA now receives compared to recent years
- In the first half of this decade, VHDA received an annual average of 83% of the state cap

VHDA's tax-exempt bond issuance remains constrained

- We are pleased that Congress is considering a temporary three-year increase in the volume cap for housing bonds to enable states to address the foreclosure problem
- However, It is unclear how a housing-specific bond cap increase would be allocated under Virginia's statutory formula between state and local issuers, and between single-family and rental housing bonds
- In addition, current market conditions are making it difficult to price tax-exempt bond sales so as to maintain reasonable lending spreads

VHDA is also facing challenges in accessing taxable bond funds

- Market conditions have made investors averse to risk and reluctant to purchase conventional mortgage securities
- VHDA shares with private lenders the challenge of accessing taxable capital under favorable terms and conditions despite our financial strength and solid loan performance
 - VHDA maintains Aa1/AA+ issuer credit ratings, and is rated AAA/Aaa on our single-family bonds
 - VHDA's foreclosure rate in December 2007 was 0.15% compared to 1.01% for Virginia and 2.04% nationally

Consequently, our lending capacity is being significantly constrained

- The ongoing problems in the conventional mortgage-backed securities market have prevented VHDA from fully and regularly supplementing limited tax-exempt bond funds with taxable capital
- The simultaneous constraints on VHDA's tax-exempt and taxable borrowing have significantly reduced available loan funds

Challenge #3—Fair and prudent balancing of supply and demand

Despite the increased need of first-time home buyers for access to affordable mortgage credit, VHDA is having to curtail home purchase programs in order to:

- Balance the supply of and demand for funds
- Conform to the ongoing tightening of lending standards by mortgage insurance providers
- Prudently manage risks in declining markets

Present loan demand greatly exceeds VHDA's supply of funds

- Retrenchment in the mortgage industry has been severe, leaving Fannie Mae, Freddie Mac and state housing finance agencies as virtually the only sources of credit for first-time homebuyers
- Demand for VHDA funds is running 50% to 100% higher than the level we are able to serve given our current capital constraints

Consequently, VHDA has had to curtail home purchase programs

- Over the past year, VHDA has taken a number of steps to tighten loan pricing and underwriting, and suspend certain loan programs in order to balance loan supply and demand
- As of April 1, additional steps have been taken to:
 - Suspend the uninsured taxable bond program and the companion Home Stride down payment assistance program
 - Suspend the Step Rate graduated payment program
 - Increase down payment requirements for loans covered by private mortgage insurance

VHDA's rental programs face different short-term challenges

- Current problems in the home purchase market have not yet substantially impacted the sale of multifamily bonds—therefore, adequate multifamily loan funds remain available
- However, the development of affordable rental housing is being made increasingly difficult by:
 - Continued scarcity of multifamily sites
 - Land prices in Northern Virginia and other high-cost markets
 - NIMBYism
 - Falling tax credit syndication prices

VHDA remains committed to its long-term strategic goals

Despite our short-term need to prioritize our immediate market challenges, we remain committed to our long-term goals of:

1. Increasing affordable housing opportunities for:
 - low- and moderate-income households
 - Underserved minority populations
 - People with disabilities and frail elderly
2. Ensuring an ongoing inventory of affordable housing that supports strong, viable communities
 - This includes our commitment to providing financing for mixed-use and mixed-income developments

VHDA is making significant progress in addressing needs

- In FY08, we expect to finance 6,400 home purchase loans and 4,000 affordable rental units
- 28% of our homebuyers are minority households, and 65% have income less than 80% of median
- We are working to develop Universal Design standards for our rental programs and are partnering to implement Virginia's new "Easy Living" home certification program
- We have instituted a management certification program for VHDA rental developments to improve management quality
- We are continuing to promote Green Building in the housing we assist

In conclusion:

- VHDA is continuing to address Virginia's diverse community housing needs under difficult market conditions
- In doing so, we are balancing our short-term challenges with our long-term strategic goals
- We look forward to ongoing collaboration with the Housing Commission to increase quality, affordable opportunities for all Virginians